# Message Text

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ACTION EB-07

INFO OCT-01 ISO-00 EUR-12 IO-13 SP-02 USIA-06 AID-05
NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
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FM USMISSION GENEVA
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AMEMBASSY PARIS
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AMEMBASSY SINGAPORE
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
AMCONSUL HONG KONG

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E.O. 11652: N/A
TAGS: ETRD, GATT, CA
SUBJECT: TEXTILES COMMITTEE DISCUSSION OF MFA AND GATT/
CANADIAN TEXTILE RESTRICTIONS

REF: GENEVA 9685

SUMMARY: TEXTILES COMMITTEE SESSION OF FRIDAY, DEC. 3, 1976
ALTHOUGH OFFICIALLY CALLED FOR DISCUSSION OF OPTIONS AVAIL-
ABLE TO MEMBER STATES TO USE GATT OR MFA PROCEDURES FOR RESOLU-
TION OF TEXTILE RESTRAINT ISSUES, WAS PRECIPITATED BY, AND
CENTERED ABOUT, RECENT CANADIAN USE OF GATT ARTICLE XIX AND
NULLIFICATIONS OF BILATERAL UNDERSTANDINGS UNDER MFA WITH HONG
KONG AND KOREA WITHOUT PRIOR CONSULTATIONS. CANADIANS JUSTI-
FIED THEIR ACTION AS EXERCISE OF RIGHT. ALL OTHER DELS WHICH
SPOKE, EXCEPT ISRAEL, RECOGNIZED CANADA'S LEGAL RIGHT TO
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RESORT TO GATT MEASURES, BUT ALL EXCEPT AUSTRALIA VIEWED

CANADIAN ACTION AS VIOLATION OF PRINCIPLES OF MFA, PARTICULARLY ARTICLES 9:1, 9:2 AND 10:3. DESPITE CLOSE FOCUS ON UMPOPULAR CANADIAN ACTION, CRITICISM WAS TEMPERED BY AWARENESS OF FRAGILITY OF MFA AND OF WISE USE BY PARTICIPANTS OF GATT RESTRICTIONS OF ONE KIND OR ANOTHER. END SUMMARY.

1. CANADIANS OPENED DISCUSSION WITH UNYIELDING, UNREPENTANT STATEMENT ATTACKING MANY OTHER COUNTRIES AND JUSTIFYING THEIR GATT ARTICLE XIX ACTION AS EXERCISE OF RIGHTS; THEY CITED IMPORT PENETRATION STATISTICS AND RAPID INCREASE IN IMPORTS DURING 1976 AS JUSTIFICATION. IMPORT SITUATION WITH RESPECT TO HONG KONG AND KOREA WAS DESCRIBED BY CANADIANS AS A DISASTER; FORCE MAJEURE WAS THE REASON TO BREAK AGREEMENTS. CANADIANS ASSERTED THAT U.S. SUBSIDIZED EXPORTS BY MEANS OF DISC AND INTRODUCED COUNTERVAILING DUTY ACTIONS TO RESTRAIN IMPORTS; THEY SAID IT WAS IMPOSSIBLE FOR THEM TO RESTRAIN U.S. IMPORTS UNDER MFA BECAUSE U.S. WOULD NOT AGREE TO EXPORT RESTRAINTS AND PROBABLY DID NOT EVEN HAVE LEGAL AUTHORITY TO RESTRAIN EXPORTS. HONG KONG REP TSAO SUBSEQUENTLY NOTED THAT BILATERAL AGREEMENT WAS NOT NECESSARY UNDER MFA; ARTICLE 3 COULD BE USED TO RESTRAIN U.S. EXPORTS TO CANADA BY MEANS OF THE IMPORTING COUNTRY USING IMPORT CONTROLS.

2. JAPANESE DEL MIZOGUCHI PRESENTED SEQUENCE OF THREE STEPS OR GUIDELINES WHICH SHOULD BE TAKEN OR OBSERVED BY COUNTRY SEEKING RESTRAINTS:

A. TEXTILES COMMITTEE OR TSB SHOULD BE NOTIFIED AT LEAST INFORMALLY IN EVENT A COUNTRY WISHES TO RESORT TO GATT XIX FOR A TEXTILE PROBLEM.

B. BEFORE GATT XIX USED, BILATERAL AND MULTILATERAL CONSULTATIONS SHOULD BE HLED ON MEANS TO RESOLVE PROBLEM, WITH SOME PROCEDURE TO EXCHANGE VIEWS IN THE TEXTILES COMMITTEE OR IN THE TSB.

C. ACTION SHOULD BE INITIATED UNDER MFA, RATHER
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THAN GATT, IF POSSIBLE.

MANY DELS WHICH SPOKE SUBSEQUENTLY AGREED WITH JAPANESE APPROACH.

3. EC REPRESENTATIVE MEYNELL VIEWED MFA AS THE PROPER INSTRUMENT FOR REGULATING TRADE IN TEXTILES AND EXPRESSED STRONG CONCERN FOR EFFECT OF CANA-

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DIAN ACTION ON WORLD TEXTILE TRADE. HE CONCLUDED THAT THIS PROBLEM COULD NOT BE SOLVED IN TC; A SOLUTION WOULD REQUIRE AMENDMENT OF MFA. THIS WAS FIRST TIME THAT MEYNELL HAS OPENLY SPOKEN OF AMENDING MFA.

4. SPAIN, IN A MOST MODERATE STATEMENT, INDICATED SYMPATHY FOR A COUNTRY THAT CLAIMED SEVERE DISTRESS TO ITS TEXTILE INDUSTRY BUT FELT THAT CANADA SHOULD HAVE BROUGHT THE ISSUE TO THE APPROPRIATE MFA FORUM. MOST DELEGATIONS WHICH SPOKE AGREED THAT WHILE CANADIAN ACTION WAS TECHNICALLY LEGAL, IT WAS CLEARLY CONTRARY TO INTENT AND SPIRIT OF MFA. BRAZILIAN REP RAFFAELLI, IN THOUGHTFUL STATEMENT, ACCEPTED POSSIBILITY ACTION UNDER EITHER GATT OR MFA, PROVIDED STEP TAKEN WAS PROPERLY AUTHORIZED BY AGREEMENT UNDER WHICH ACTION WAS TAKEN.

5. HONG KONG SPOKESMAN RIDICULED FORCES MAJEURE ARGUMENT, NOTING THAT ABROGATED AGREEMENT HAD BEEN INITIATED ONLY 49 DAYS BEFORE AND IVPORT SITUATION MUST HAVE BEEN FORESEEN AT THAT TIME. IT WAS CLEAR FROM THE TENOR OF HK COMMENTS THAT HK HAS EVERY INTENTION OF PURSUING THE MATTER IN ACCORDANCE WITH MFA ARTICLE 9(2), INCLUDING EVENTUAL SUBMISSION TO TSB.

6. U.S. STATEMENT, BY CHAIRMAN USDEL SMITH, WAS THAT

U.S. BELIEVED, WHEN IT ACCEDED TO THE MFA, THAT IT HAD ASSUMED CERTAIN OBLIGATIONS, MADE CERTAIN COMMITMENTS AND RESERVED CERTAIN RIGHTS. IF ANY COUNTRY BELIEVED THAT ITS PARTICIPATION IN MFA ENTAILED NEITHER OBLIGATIONS NOR COMMITMENT, THEN COOPERATION COULD ONLY DECLINE. FURTHER, WHILE OTHER COUNTRIES COULD SPEAK FOR THEMSELVES ABOUT THE MEANING OF MFA, USG NOTED THAT GOC SPOKESMAN DID





NOT ONCE IN HIS STATEMENT EXPLAIN WEAKNESS IN MFA WHICH CAUSED CANADA TO TAKE GATT ARTICLE XIX ACTION. (GOC SUBSEQUENTLY MENTIONED U.S. UNWILLINGNESS OR INABILITY TO RESTRAIN IMPORTS.)

7. CHAIRMAN LONG'S SUMMARY STATEMENT NOTED THAT WHILE THERE WAS GENERAL AGREEMENT THAT CANADA HAD LEGAL RIGHT TO ACT AS IT HAD, MOST COUNTRIES QUESTIONED PROPRIETY OF THIS TYPE USE OF GATT XIX, AND MOST MEMBERS FELT THAT MEMBER COUNTRIES OF BOTH GATT AND MFA HAD OBLIGATION TO USE MFA FIRST. LONG ADDED, HOWEVER, THAT A FEW COUNTRIES DID NOT SHARE THIS MAJORITY VIEW; HENCE DEFINITIVE CONSENSUS WAS LACKING, AND IT APPEARED THAT TC MEMBERS SHOULD TAKE TIME TO DIGEST AND REFLECT UPON ARGUMENTS; TC COULD MEET AT SOME FUTURE

DATE (IF NECESSARY) TO CONTINUE DISCUSSION.

8. COMMENT: LONG'S SUMMARY ACCURATELY DESCRIBES DISCUSSION OF THIS THORNY PROBLEM. MOST IMPORTANT CONCLUSION FROM DISCUSSION IS THAT ALTHOUGH VIRTUALLY ALL COUNTRIES ARE APPALLED AT CANADIAN ACTION, THEY ARE NOT WILLING TO USE IT AS A MEANS OF DISRUPTING DISCUSSIONS ON OPERATION AND RENEWAL OF MFA. ALTHOUGH TIMEING OF CANADIAN STEP AT FIRST SEEMED EXTRAORDINARILY BAD WITH RESPECT TO RENEWAL OF MFA, FRIDAY MEETING MAY HAVE SERVED TO CLARIFY POSITIONS OF A NUMBER OF COUNTRIES AS BEING NOT OPPOSED TO RENEWAL. THE CONSIDERED, TEMPERATE STATEMENTS MADE BY ALL SPEAKERS (OTHER THAN CANADA AND AUSTRALIA) INDICATE A TACIT UNDERSTANDING, AGAIN WITH EXCEPTION OF CANADA AND AUSTRALIA, THAT CANADIAN ACTION IS A SIDE ISSUE, INSOLUBLE AT PRESENT,AND THAT CONSIDERATION OF RENEWAL, EVEN ACHIEVEMENT OF RENEWAL, SHOULD NOT BE SIDE-TRACKED BY IT. CATTO

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